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DRAFTED BY EB/TCA/MA:REJOHE/CTAYLOR, JR.:EW

APPROVED BY EB/TCA/MA:CTAYLOR, JR.

MARAD:JHOEN (SUBS)

EUR/EE:SFROMOWITZ

EUR/EE:NANDREWS

EUR/RPE:ECASEY (INFO)

EUR:AHARTMAN

FMC:DWOOTEN (INFO)

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P R 092111Z SEP 76

FM SECSTATE WASHDC

TO AMEMBASSY BELGRADE PRIORITY

INFO AMEMBASSY ROME

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ROME FOR MARATT

E.O. 11652:N/A

TAGS:EWWT, YO

SUBJECT:REPORTED DISCRIMINATORY BANK DISCOUNT PRACTICES
IN YUGOSLAVIAN EXPORT TRADE

REF: A) STATE 176669 (NOTAL), B) STATE 165640

1. RECENT DEVELOPMENTS HAVE BROUGHT THE ALLEGED YUGOSLAV
DISCRIMINATION AGAINST AMERICAN VESSELS INTO NEW FOCUS.
UNIVERSAL TRANSPORT CORPORATION, FREIGHT FORWARDERS IN
NEW YORK HANDLING YUGOSLAV ACCOUNTS, REQUESTED IN A LETTER
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TO THE MARITIME ADMINISTRATION (MARAD) DATED JULY 29, 1976,

WAIVER UNDER PR 17 FOR EXIMBANK CREDIT NUMBER 6138 FOR DOLLARS 19 MILLION TO FINANCE THE EXPANSION OF A PETROCHEMICAL PLANT IN YUGOSLAVIA. THE WAIVER WAS REQUESTED IN ORDER TO PERMIT VESSELS OF YUGOSLAV REGISTRY TO PARTICIPATE UP TO 50 PERCENT IN THE MOVEMENT OF CARGO UNDER CREDIT NUMBER 6138. MARAD, IN TURN, ACKNOWLEDGED THE LETTER ON AUGUST 6, AND ON THE SAME DATE REQUESTED COMMENTS FROM U.S.-FLAG CARRIERS IN THE YUGOSLAV TRADE BEFORE GRANTING THIS WAIVER. COPIES OF THE LATTER TWO LETTERS WERE SENT TO EMBASSY BELGRADE.

2. AS A RESULT OF THE MARAD REQUEST, SEA-LAND SERVICE, IN A LETTER TO MARAD DATED AUGUST 16, CLAIMED THE FOLLOWING:

AN EXPORT PREMIUM ON OCEAN FREIGHT OF 20 PERCENT TO U.S. NORTH ATLANTIC PORTS AND 30 PERCENT TO OTHER PORTS IS BEING GIVEN TO YUGOSLAV EXPORTERS BY YUGOSLAVIA NATIONAL BANK WHEN THE FOLLOWING CONDITIONS ARE MET: (A) SHIPMENT IS MADE VIA A YUGOSLAV PORT ON A YUGOSLAV VESSEL; (B) IF NO YUGOSLAV VESSEL IS AVAILABLE AND SHIPMENT IS MADE VIA YUGOSLAV PORT, A FOREIGN-FLAG VESSEL MAY BE UTILIZED; HOWEVER, A CERTIFICATE MUST BE OBTAINED FROM THE ASSOCIATION OF YUGOSLAV SHIPOWNERS STATING THAT NO YUGOSLAV-FLAG VESSEL IS AVAILABLE. SEA-LAND STATED THAT U.S.-FLAG INTERESTS SERVING YUGOSLAVIA ARE NOT ACCORDED FAIR AND EQUAL TREATMENT IN THAT TRADE AND THEREFORE RECOMMENDED THAT THE REQUESTED WAIVER NOT BE GRANTED.

3. ACTING ON SEA-LAND'S RECOMMENDATION AS WELL AS ON ADDITIONAL EVIDENCE GATHERED BY REGIONAL MARATT, D. MANFREDI, MARAD SEPTEMBER 7 SENT A LETTER TO UNIVERSAL TRANSPORT CORPORATION DENYING THE GENERAL WAIVER REQUEST. A BRIEF SYNOPSIS OF LETTER FOLLOWS. IT IS MARAD'S UNDERSTANDING THAT EXPORTERS IN YUGOSLAVIA USING YUGOSLAV VESSELS SAILING FROM YUGOSLAV PORTS ARE RECEIVING CASH BENEFITS THROUGH THE YUGOSLAV BANKING SYSTEM. THE YUGOSLAV GOVERNMENT HAS APPROVED THIS PROGRAM TO STIMULATE OUTBOUND MOVEMENT OF CARGO FROM THEIR OWN PORTS AND ON THEIR NATIONAL FLAG VESSELS. U.S.-FLAG CARRIERS CALLING AT YUGOSLAV PORTS LOOKING FOR OUTBOUND CARGO CANNOT COM-

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PETE WITH THE NATIONAL CARRIERS ON AN EQUAL BASIS WHEN EXPORTERS ARE RECEIVING CASH BENEFITS FOR USING YUGOSLAV VESSELS. IN ADDITION TO DENYING THIS GENERAL WAIVER FOR CREDIT NUMBER 6138, MARAD PLANS TO DENY ALL REQUESTS FOR GENERAL WAIVERS TO YUGOSLAVIA UNTIL SUCH TIME AS DISCRIMINATION IS REMOVED AGAINST U.S.-FLAG CARRIERS. END SYNOPSIS.

4. ON AUGUST 23, IN RESPONSE TO DEPARTMENT'S EARLIER PRESENTATION TO YUGOSLAV EMBASSY ECONOMIC COUNSELOR ACKOVSKI, EMBASSY FIRST SECRETARY KULISIC INFORMED DEPARTMENT (EB/TCA/MA) THAT HE HAD NO INFORMATION OR EVIDENCE THAT WOULD CORROBORATE U.S.-FLAG CARRIERS' (SEA-LAND AND AEL) CLAIMS THAT THEY ARE BEING DISCRIMINATED AGAINST IN YUGOSLAV EXPORT TRADE. (SEE REFTTEL B FOR BACKGROUND.)

5. ON SEPTEMBER 2, MARAD OFFICIAL MET WITH CAPT. BOHANIC, US REP FOR JUGOLINIJA, TO DISCUSS PLANNED DENIAL OF WAIVER. BOHANIC COULD SHED NO LIGHT ON SUBJECT BUT SAID HE WOULD LIKE TO SEE PROBLEM RESOLVED AND WOULD TRY TO "GET YUGOSLAV EMBASSY MOVING."

6. APPARENTLY PROMPTED BY BOHANIC'S REPORT THAT WAIVER WOULD BE DENIED, ACKOVSKI ON SEPTEMBER 7 AGAIN CALLED ON DEPARTMENT AND MARAD OFFICERS TO ASK THAT WAIVER BE GRANTED TO PERMIT YUGOSLAV SHIPS NOW WAITING AT HOUSTON TO START LOADING. DEPARTMENT AND MARAD OFFICERS REVIEWED WITH HIM ALLEGATIONS OF EXPORT PREMIUMS DESCRIBED IN PARA 2 ABOVE. ACKOVSKI AGAIN STATED THAT BELGRADE HAD INFORMED YUGOSLAV EMBASSY THAT NO SUCH BENEFITS WERE BEING GRANTED. DEPARTMENT OFFICERS REPLIED THAT IN VIEW OF ALLEGATIONS OF U.S. LINES AND CORROBORATING EVIDENCE OBTAINED BY MARATT, WAIVER FOR CREDIT 6138 COULD NOT BE GRANTED UNTIL MATTER IS CLEARED UP; DEPARTMENT OFFICERS SUGGESTED TO ACKOVSKI POSSIBILITY THAT DISCRIMINATORY PRACTICE EXISTS WITHOUT SANCTION OF FORMAL LAW OR REGULATION. DEPARTMENT OFFICERS ALSO STRESSED THAT NON-GRANTING OF CURRENT WAIVER REQUESTS WAS MILDEST STEP USG COULD TAKE AND OUTLINED OTHER POSSIBLE STEPS WHICH COULD ENSUE (SEE PARA 7 BELOW) IF MATTER WERE TO REMAIN UNRESOLVED. ACKOVSKI AGREED TO LIMITED OFFICIAL USE

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QUERY BELGRADE AGAIN BUT WAS CERTAIN HE WOULD RECEIVE SAME RESPONSE. ACKOVSKI ALSO EXPRESSED CONCERN THAT DENIAL OF WAIVER COULD HAVE DELETERIOUS IMPACT ON OTHERWISE GOOD STATE OF YUGOSLAV-AMERICAN ECONOMIC RELATIONS. DEPARTMENT OFFICER MADE COMMITMENT TO TRY TO OBTAIN MORE SPECIFIC INFORMATION FROM U.S. LINES AND MARATT, WHICH DEPARTMENT WOULD SHARE WITH YUGOSLAVS TO EXTENT POSSIBLE.

7. IN DISCUSSING LATEST EVENTS WITH YUGOSLAV OFFICIALS, EMBASSY OFFICERS SHOULD KEEP THE FOLLOWING POINTS IN MIND: BECAUSE OF THE WAIVER DENIAL ON CREDIT 6138, YUGOSLAVIAN VESSELS STAND TO LOSE APPROXIMATELY DOLLARS 640,000 IN FREIGHT CHARGES (3.5 PERCENT OF 19 MILLION); ONCE THE DISCRIMINATION IS REMOVED, MARAD WILL AGAIN ENTERTAIN A REQUEST FOR WAIVERS; REFUSAL OF WAIVER ON

CREDIT 6138 IS THE LEAST PUNITIVE ACTION AVAILABLE IN THIS MATTER AGAINST YUGOSLAVIA. MARAD, ON ITS OWN INITIATIVE, HAS THE FINAL AUTHORITY TO REVOKE WAIVERS WHICH HAVE ALREADY BEEN GRANTED. SINCE 1973, YUGOSLAV VESSELS HAVE BEEN GRANTED WAIVERS TO CARRY AT LEAST 50 PERCENT OF THE CARGO UNDER PR 17 ON CREDITS WORTH OVER DOLLARS 1 BILLION, RESULTING IN ABOUT 3.5 MILLION DOLLARS IN FREIGHT REVENUES TO YUGOSLAV CARRIERS. WHILE SOME OF THE COMMODITIES UNDER THESE CREDITS HAVE BEEN DELIVERED, ANY OUTSTANDING WAIVER UNDER PR 17 CAN BE REVOKED IF DISCRIMINATION IS NOT REMOVED. MARAD IS NOT CONTEMPLATING SUCH DRASTIC ACTION AT THIS TIME, BUT THE POSSIBILITY STILL EXISTS. MARAD CONTINUES TO WORK WITH DEPARTMENT REGARDING DIPLOMATIC RESOLUTION OF THE PROBLEM. IN ADDITION, U.S.-FLAG CARRIERS COULD FILE ACTION WITH FMC UNDER SECTION 19, MERCHANT MARINE ACT, 1920 TO HAVE THE

FMC ADJUST OR MEET GENERAL OR SPECIFIC CONDITIONS UNFAVORABLE TO SHIPPING IN THE FOREIGN TRADE, AND UNDER SECTION 301, TRADE ACT, 1974. MARAD IS UNDER PRESSURE FROM THE U.S.-FLAG CARRIERS PLYING THE YUGOSLAV TRADE TO TAKE PUNITIVE ACTION AGAINST YUGOSLAV DISCRIMINATORY PRACTICES. YUGOSLAVS SHOULD NOT FEEL THAT THEY ARE BEING SINGLED OUT. (FOR EXAMPLE, PR 17 WAIVER REQUESTS FROM THE PHILIPPINES HAVE BEEN DENIED FOR OVER 10 YEARS BECAUSE OF DISCRIMINATORY PRACTICES.)
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8. ALTHOUGH WE CONSIDER IT UNLIKELY THAT EMBASSY WILL BE ABLE TO OBTAIN COPY OF PURPORTED REGULATION, BELIEVE IT IS IMPORTANT THAT EMBASSY RAISE ISSUE AGAIN IN BELGRADE IN ORDER TO TRY TO CLARIFY ALLEGATIONS OF DISCRIMINATION, BELIEVE IT MIGHT ALSO BE USEFUL FOR EMBASSY TO CONTACT ASSOCIATION OF YUGOSLAV SHIPOWNERS FOR INFORMATION ON IMPLEMENTATION OF ALLEGED PREMIUM SCHEME. IN ABSENCE OF EFFECTIVE YUGOSLAV REBUTTAL OF ALLEGATIONS, MARAD WILL CONTINUE TO DENY ANY YUGOSLAV WAIVER REQUESTS. WOULD APPRECIATE ANY INFORMATION WHICH EMBASSY CAN DEVELOP THROUGH ITS CONVERSATIONS WITH YUGOSLAV OFFICIALS. KISSINGER

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